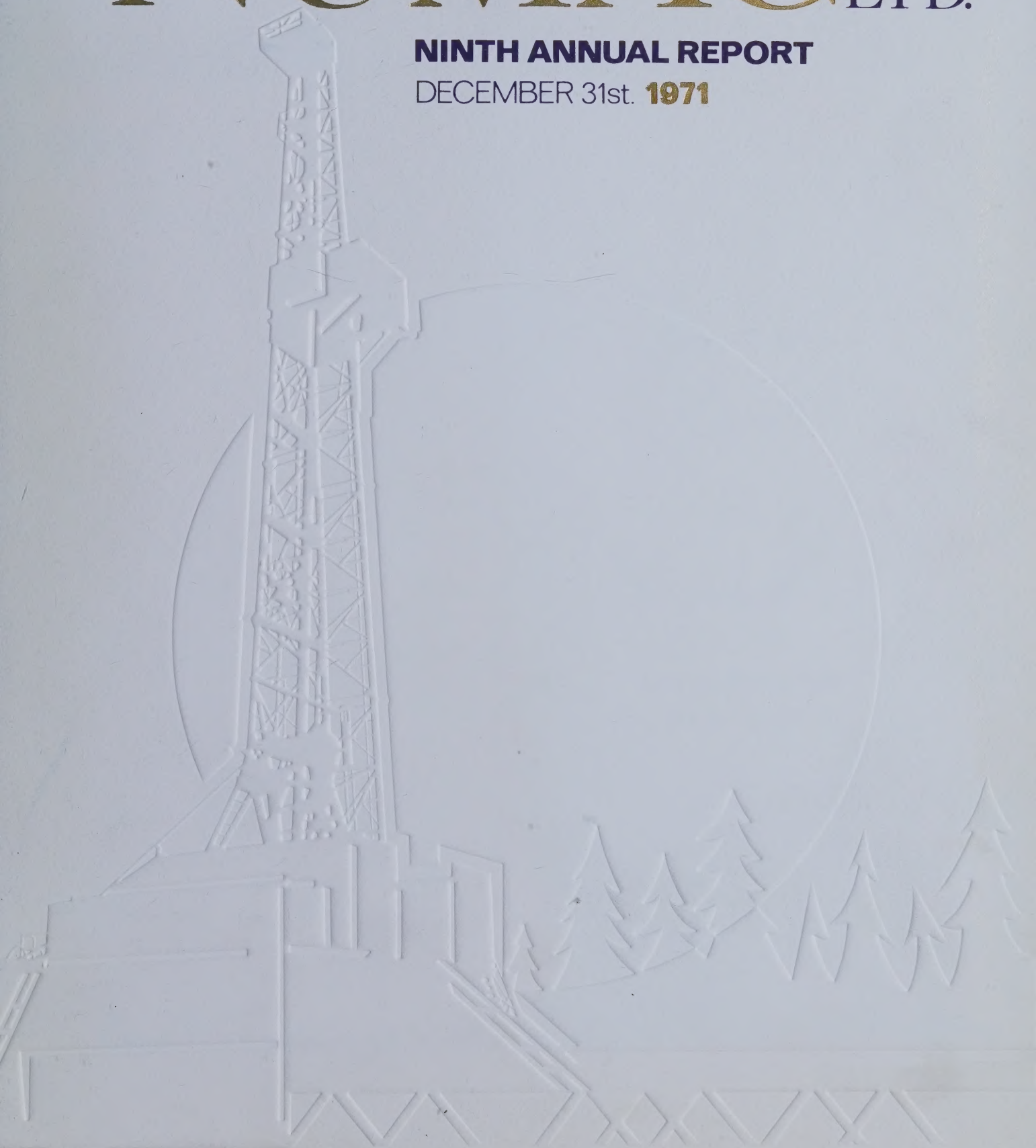


AR18

NUMAC OIL & GAS LTD.

NINTH ANNUAL REPORT

DECEMBER 31st. **1971**



CONSOLIDATED STATEMENT OF SOURCE AND

AR18

AR18

*Financial
Report
to
Shareholders*

THREE MONTHS ENDED

MARCH 31, 1971

NUMAC OIL & GAS LTD.

NUMAC OIL & GAS LTD.

**CONSOLIDATED STATEMENT OF INCOME
AND RETAINED EARNINGS
FOR THE THREE MONTHS ENDED MARCH 31, 1971**

(with comparative figures for 1970)

	1971	1970
INCOME		
Income from operations --	\$ 690,362	\$ 631,890
Investment income -----	105,801	76,766
Supervision and sundry --	13,958	12,107
	<u>810,121</u>	<u>720,763</u>
EXPENSES		
Operating expense -----	206,123	248,327
General and administrative	77,677	60,203
Interest expense -----	12,754	11,695
Minority interest -----	10,200	15,800
	<u>306,754</u>	<u>336,025</u>
CASH FLOW		
FROM OPERATIONS ----	503,367	384,738
Provision for depletion and depreciation -----	<u>185,810</u>	<u>157,568</u>
NET INCOME -----	<u>317,557</u>	<u>227,170</u>
Retained earnings January 1 -----	<u>2,969,905</u>	<u>1,785,594</u>
RETAINED EARNINGS		
MARCH 31 -----	<u>\$3,287,462</u>	<u>\$2,012,764</u>
NET INCOME PER SHARE --	7.6¢	5.4¢
Prepared Without Audit		

**CONSOLIDATED STATEMENT OF SOURCE AND
APPLICATION OF FUNDS
FOR THE THREE MONTHS ENDED MARCH 31, 1971**

(with comparative figures for 1970)

	1971	1970
SOURCE OF FUNDS		
Gross income -----	\$ 810,121	\$ 720,763
Less: Operating, general and administrative interest and minority interest --	<u>306,754</u>	<u>336,025</u>
Cash flow from operations	503,367	384,738
Proceeds from sale of interest in rights and leases -----	—	60,000
Minority interest share of income -----	10,200	15,800
	<u>513,567</u>	<u>460,538</u>
APPLICATION OF FUNDS		
Exploration, development and equipment -----	207,843	932,264
Purchase of investments --	—	25,000
	<u>207,843</u>	<u>957,264</u>
Increase (decrease) in working capital ----	305,724	(496,726)
Working capital January 1st	<u>4,018,113</u>	<u>3,816,730</u>
WORKING CAPITAL		
MARCH 31 -----	<u>\$4,323,837</u>	<u>\$3,320,004</u>

Edmonton, Alberta
May 10, 1971

W. S. McGregor
W. S. McGregor
President

AR18

CONSOLIDATED STATEMENT OF SOURCE AND
APPLICATION OF FUNDS
FOR THE SIX MONTHS ENDED JUNE 30, 1971

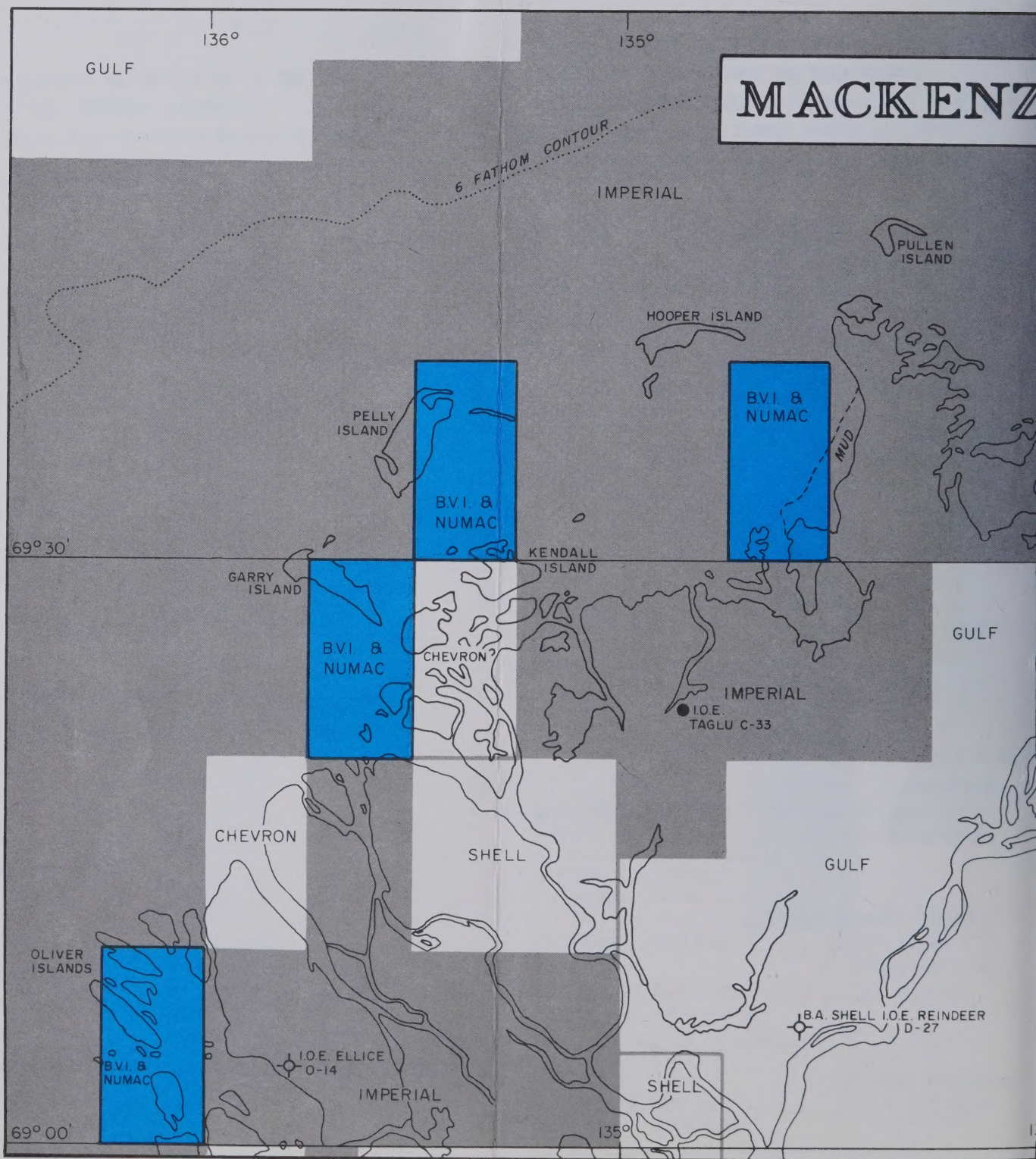
(1970 figures adjusted for comparative purposes)

	<u>1971</u>	<u>1970</u>
SOURCE OF FUNDS		
Gross income -----	\$1,490,649	\$1,452,028
Less: Operating, gen- eral and administra- tive interest and mi- nority interest ----	<u>484,024</u>	<u>563,448</u>
Cash flow from operations ---	1,006,625	888,580
Net proceeds from set- tlement on legal ac- tion -----	110,671	—
Proceeds from sale of interest in rights and leases -----	141,243	60,000
Minority interest ----	<u>120,168</u>	<u>30,281</u>
	<u>1,378,707</u>	<u>978,861</u>
APPLICATION OF FUNDS		
Exploration, develop- ment and equipment	807,041	1,118,479
Purchase of investments	<u>12,480</u>	<u>43,750</u>
	<u>819,521</u>	<u>1,162,229</u>
Increase (decrease) in working capital ---	559,186	(183,368)
Working capital January 1st -----	<u>4,018,113</u>	<u>3,816,730</u>
WORKING CAPITAL		
June 30 -----	<u><u>\$4,577,299</u></u>	<u><u>\$3,633,362</u></u>

*Interim
Report
to
Shareholders*

SIX MONTHS ENDED
JUNE 30, 1971

NUMAC OIL & GAS LTD.



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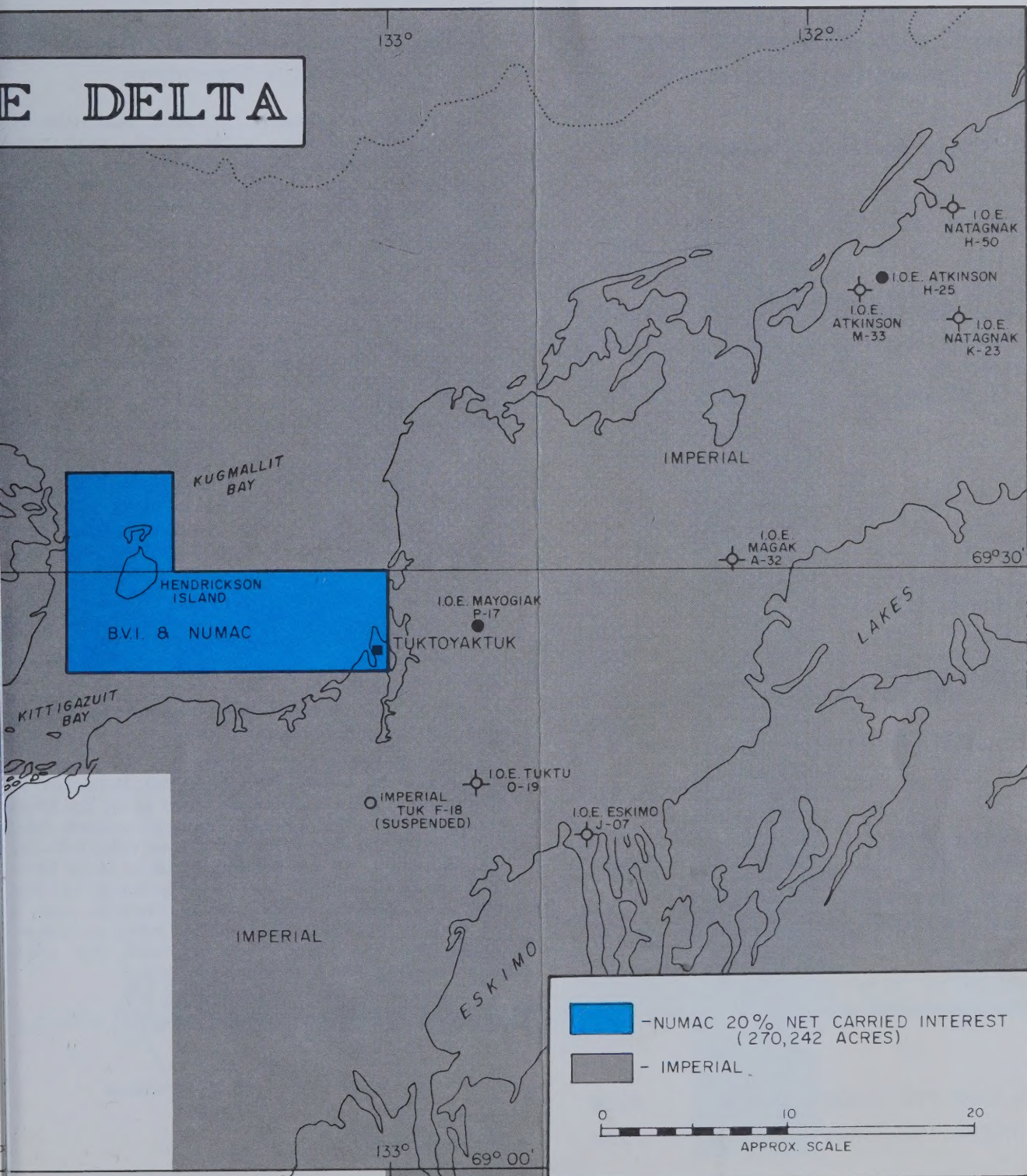
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**CONSOLIDATED STATEMENT OF INCOME
FOR THE SIX MONTHS ENDED JUNE 30, 1971**

(1970 figures adjusted for comparative purposes)

	1971	1970
INCOME		
Income		
from operations ----	\$1,233,398	\$1,244,099
Investment income ----	231,950	173,255
Supervision and sundry -----	25,301	34,674
	<u>1,490,649</u>	<u>1,452,028</u>
EXPENSES		
Operating expense ----	275,987	371,730
General and administrative -----	161,196	130,465
Interest expense -----	23,511	30,972
Minority interest -----	23,330	30,281
	<u>484,024</u>	<u>563,448</u>
CASH FLOW FROM OPERATIONS -----	<u>1,006,625</u>	<u>888,580</u>
Provision for depletion and depreciation --	<u>352,382</u>	<u>326,746</u>
NET INCOME -----	<u><u>654,243</u></u>	<u><u>561,834</u></u>
CASH FLOW PER SHARE	24.1¢	21.3¢
NET INCOME PER SHARE	15.6¢	13.4¢

**SPECIAL REPORT ON THE MACKENZIE DELTA,
NORTHWEST TERRITORIES**

In January 1970, Imperial Oil Limited encountered the first significant oil discovery in the Canadian North at its Atkinson H-25 location in the Mackenzie Delta. The well flowed light gravity oil to surface from a depth of approximately 5,800 feet. Subsequent to that discovery a number of other wells were drilled and abandoned on the east arm of the Tuktoyaktuk Peninsula.

Then, in early 1971, Imperial Oil announced two locations some 30 miles (Mayogiak P-17) and 80 miles (Taglu G-33) southwest of the Atkinson H-25 discovery. On May 10, 1971, Imperial Oil announced it encountered light gravity oil on a drillstem test at 3,800 feet in its Mayogiak well, some 5 miles east of Numac's most easterly acreage. On June 17, a second announcement was made that on a drillstem test light gravity crude oil flowed to the surface from a depth of 9,400 feet from the same well — making it a dual zone discovery. A further announcement was made by Imperial Oil on June 21 that it encountered a large gas flow with condensate at an interval of about 8,100 feet in its Taglu G-33 test well. This location is within 15 miles of three Numac blocks and 25 miles west of Numac's above-mentioned most easterly block.

Imperial Oil is planning to "speed up" exploration drilling as prompted by these two most recent discoveries. At least two additional rigs will be barged in this summer making five rigs available for drilling on Imperial Oil's acreage this next drilling season.

We also understand other major oil operators are planning significant drilling programs in the area.

These discoveries have been extremely encouraging to Numac who has a 20% NET CARRIED INTEREST in 270,242 acres of permits which are shown as the five blocks on the map. The 20% net carried interest agreement states essentially the following: The operator (Bow Valley Industries Ltd.) assumes the risk and responsibility for advancing 100% of all monies necessary to carry on all operations, including exploration, geophysical, drilling and completing the wells. It has the right to recover these costs, excluding any interest charges, from the proceeds from production, after which Numac would receive 20% of the net proceeds.

W. S. McGregor
President

July 27, 1971
Edmonton, Alberta

AR18

*Financial
Report
to
Shareholders*

NINE MONTHS ENDED

SEPTEMBER 30, 1971

NUMAC OIL & GAS LTD.

NUMAC OIL & GAS LTD.

CONSOLIDATED STATEMENT OF INCOME
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1971

(1970 figures adjusted for comparative purposes)

	1971	1970
INCOME		
Income from operations --	\$2,046,868	\$1,839,132
Investment income -----	330,999	253,636
Supervision and sundry ---	37,644	48,670
	<u>2,415,511</u>	<u>2,141,438</u>
EXPENSES		
Operating expense -----	568,478	565,562
General and administrative	222,272	196,659
Interest expense -----	32,358	29,417
Minority interest -----	21,181	42,977
	<u>844,289</u>	<u>834,615</u>
CASH FLOW FROM OPERATIONS ----	<u>1,571,222</u>	<u>1,306,823</u>
Provision for depletion and depreciation ----	<u>529,317</u>	<u>500,114</u>
NET INCOME, before extraordinary item ----	<u>1,041,905</u>	<u>806,709</u>
Gain on sale of investment in subsidiary -----	<u>637,671</u>	<u>—</u>
NET INCOME -----	<u>\$1,679,576</u>	<u>\$ 806,709</u>
CASH FLOW FROM OPERATIONS, per share --	37.6¢	31.3¢
CASH FLOW INCLUDING EXTRAORDINARY ITEM, per share -----	52.8¢	31.3¢
NET INCOME BEFORE EXTRAORDINARY ITEM, per share -----	24.9¢	19.3¢
NET INCOME, per share ----	40.2¢	19.3¢

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1971

(1970 figures adjusted for comparative purposes)

	1971	1970
SOURCE OF FUNDS		
Gross income -----	\$2,415,511	\$2,141,438
Less: Operating, general and administrative interest and minority interest -----	844,289	834,615
	<u>1,571,222</u>	<u>1,306,823</u>
*Funds provided by sale of investment in subsidiary	1,243,435	—
Net proceeds from settlement on legal action -----	110,575	—
Proceeds from sale of interest in rights and leases -----	122,481	60,000
Minority interest -----	118,019	42,977
	<u>3,165,732</u>	<u>1,409,800</u>
APPLICATION OF FUNDS		
Exploration development and equipment -----	1,715,804	1,377,978
Purchase of investments --	16,132	91,353
Repayment of long-term debt -----	60,000	60,000
	<u>1,791,936</u>	<u>1,529,331</u>
Increase (decrease) in working capital ----	1,373,796	(119,531)
Working capital January 1st -----	<u>4,018,113</u>	<u>3,816,730</u>
WORKING CAPITAL		
September 30 -----	<u>\$5,391,909</u>	<u>\$3,697,199</u>
*Represented by:		
Gain on sale of shares -----	\$ 637,671	
Recovery of book value of fixed and other non-current assets -----	605,764	
	<u>\$1,243,435</u>	

Edmonton, Alberta
November 8, 1971

W. S. McGregor
W. S. McGregor
President

NUMAC OIL & GAS LTD. NINTH ANNUAL REPORT, 1971

FINANCIAL AND OPERATING HIGHLIGHTS

- Mackenzie Delta Activity
- Foreign Exploration Commences
- American Stock Exchange Listing
- Land Acquisition in Western Canada
- Financial Growth

	1971	1970	Percentage Change
Gross income	\$3,473,612	\$2,980,420	17%
Cash flow from operations	2,213,761	1,869,333	18%
Long-term debt	60,000	120,000	
Cash flow available for reinvestment (after servicing long-term debt)	2,153,761	1,809,333	19%
Net income before extraordinary items	1,501,831	1,184,311	27%
Net income	2,196,484	1,184,311	85%
Working capital	5,899,236	4,225,526	40%
Capital expenditures	2,160,517	1,619,712	33%
Per share:*			
Cash flow from operations	.53	.45	
Net income before extraordinary items	.36	.28	
Net income	.53	.28	
Common shares outstanding, December 31	4,181,066	4,181,066	

* Based on weighted average of outstanding shares

REPORT OF THE DIRECTORS TO THE SHAREHOLDERS

Numac achieved continued growth in 1971 and record levels were established. Cash flow increased to \$2,213,761, a gain of 18%; net income before extraordinary items increased by 27%; and net income for the year amounted to \$2,196,484 compared with \$1,184,311 in 1970.

Your Company's 20% net carried interest in 270,242 acres strategically located in the Mackenzie Delta near large new oil and gas discoveries has been the Company's greatest potential growth asset. Drilling by other companies near our permits during the 1970-71 drilling season and the current drilling season to date continues to be very encouraging.



Numac's exploration programs in Western Canada increased significantly over 1970. During the year the Company participated in 18 wells of which 9 were successes.

On January 6, 1972, the Company's common shares commenced trading on the American Stock Exchange. This listing will provide our foreign investors access to a market outside Canada.

During 1971 Numac commenced its first exploration program outside of Canada. After acquiring seismic in the British sector of the North Sea and Celtic Sea, your Company, in association with others, has applied for Production Licences in these areas. Later in 1971 Numac also acquired a substantial amount of seismic in the Norwegian sector of the North Sea.

Mining exploration programs during 1971 in British Columbia, Saskatchewan and the Northwest Territories have produced a number of encouraging results. These programs, as well as others, will continue in 1972.

The price increase for Western Canadian crude in December 1970, along with increases in exports to the United States, had a major effect on increasing your Company's cash flow in 1971. This was the first general price increase in eight years and will help provide the oil industry with needed funds for future exploration activities.

In addition to the North Sea and Celtic Sea, the Company is continuing to expand its exploration acreage in strategically located areas of Western Canada. Early in 1972 Numac participated in the acquisition of a Petroleum and Natural Gas Permit in the Claresholm area of Alberta offsetting two recent oil discoveries, and also was successful in acquiring a 100% interest in a 74,880 acre reservation having excellent potential for gas reserves.

The directors would again like to acknowledge the support of the Company's small group of employees whose direct dedication and industriousness has resulted in the success of the Company.

On behalf of the Board of Directors

W. S. McGregor
W. S. MCGREGOR
President

March 8, 1972



REVIEW OF OPERATIONS



PRUDHOE BAY

BEAUFORT SEA

MACKENZIE DELTA

Fairbanks

ALASKA

YUKON

Whitehorse

NORTH

WEST

TERRITORIES

BEAULIEU RIVER

Yellowknife

SIMPSON ISLANDS

HELMET

CLARKE LAKE (EAST)

GRASSY

SILVERBERRY

Ft. St John

ZAMA

GRAHAM RIVER

LUBICON LAKE

RED EARTH

CARSWELL DOME

WOLLASTON LAKE

SURMONT

UTIKUMA

ALBERTA

Edmonton

EDSON S.

Calgary

CLARESHOLM

SASKATCHEWAN

Regina

MANITOBA

Winnipeg

BRITISH COLUMBIA

BRANTA

PRINCETON

Vancouver

Victoria

PACIFIC OCEAN

U. S. A.

OIL AND GAS EXPLORATION AND DEVELOPMENT

Western Canada

Numac participated in the drilling of eighteen wells during 1971, eleven being in the exploratory and seven in development (or infill) category. Seven were completed as oil wells while one stands suspended as a potential gas well. Of these successes, the Company's 50% interest in a Granite Wash oil well in the UTIKUMA oil field resulted in an increase in its income from this area. The Utikuma and RED EARTH fields, which contributed approximately 50% of the Company's production, are producing well below capacity. As the demand for crude oil increases, production allowables in these areas should increase at an accelerated rate.

The Company became increasingly aggressive during the year in acquiring acreage in Western Canada (see map on page 4). As major companies are allocating large portions of their exploration budgets to the frontier areas, more competitive opportunities are available in Western Canada. These opportunities are occurring at a very strategic time for Numac when it has a healthy working capital position and cash flow is increasing.

Varied interests are held in a Beaverhill Lake play in the EDSON (SOUTH) area where Numac is involved in a farmin-option agreement under which two Beaverhill Lake tests must be drilled to earn interests in 22,400 acres of leases. The first test is currently underway.

In the LUBICON area, west of the Red Earth Granite Wash oil field, the Company has accumulated varied interests in over 100,000 lease and reservation acres. In addition, an option is held whereby an interest in a Petroleum and Natural Gas Reservation may be earned. Further drilling is planned for this area and a farmout proposal, stipulating a test well on Company acreage, is currently being considered. Northwest of the Utikuma oil field, Numac holds a 50% interest in 5,280 lease acres which were earned by farmin and Crown sale acquisitions. Recently a 7,360 acre Drilling Reservation was added to acreage holdings in this area. Drilling activity is being considered for these properties in 1972.

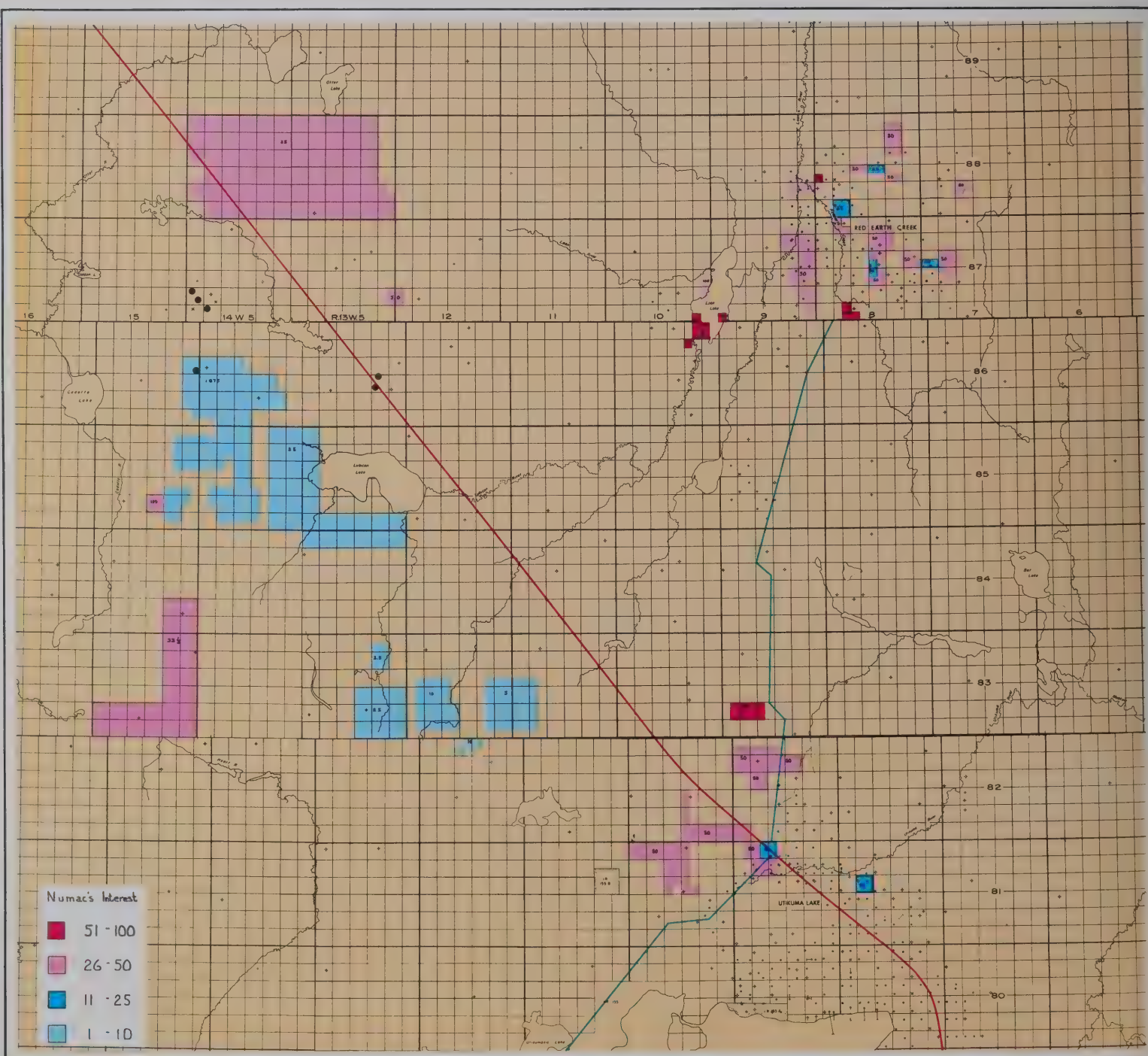
Subsequent to the year end, the Company participated to the extent of 50% in the acquisition of a 22,213 acre Petroleum and Natural Gas Reservation in the SNOWFALL area in north-western Alberta. Similarly a 50% interest is held in 1,600 acres of leases acquired in the CLEAR HILLS area, east of the Worsley gas field. A reported gas discovery was recently drilled close to these leases. The Company also purchased a 74,880 acre Petroleum and Natural Gas Reservation in the SURMONT area, south of the Fort McMurray Bituminous Sands area where prospects of sizable gas reserves are good.

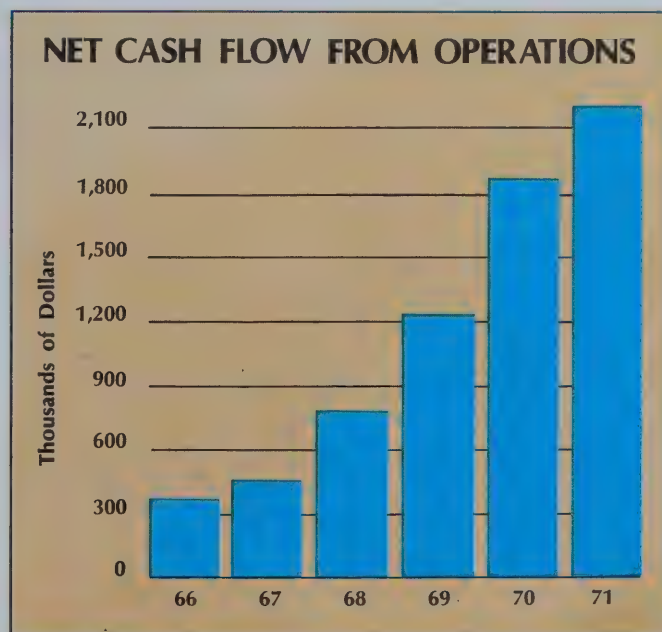
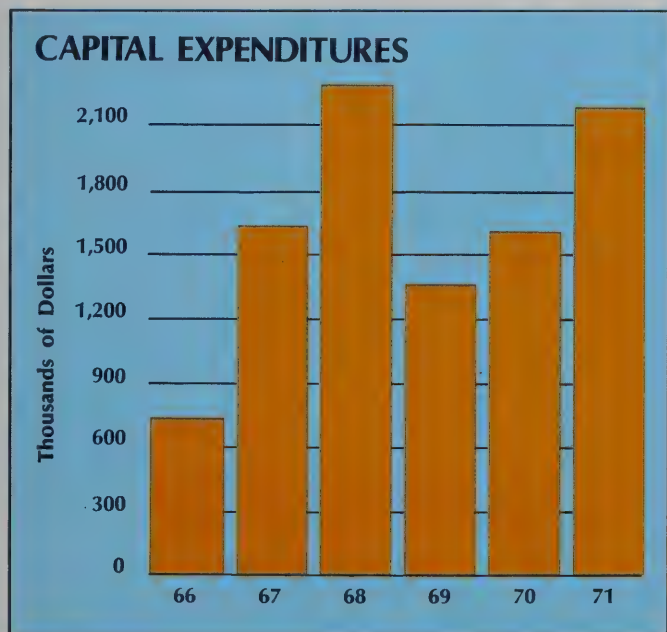
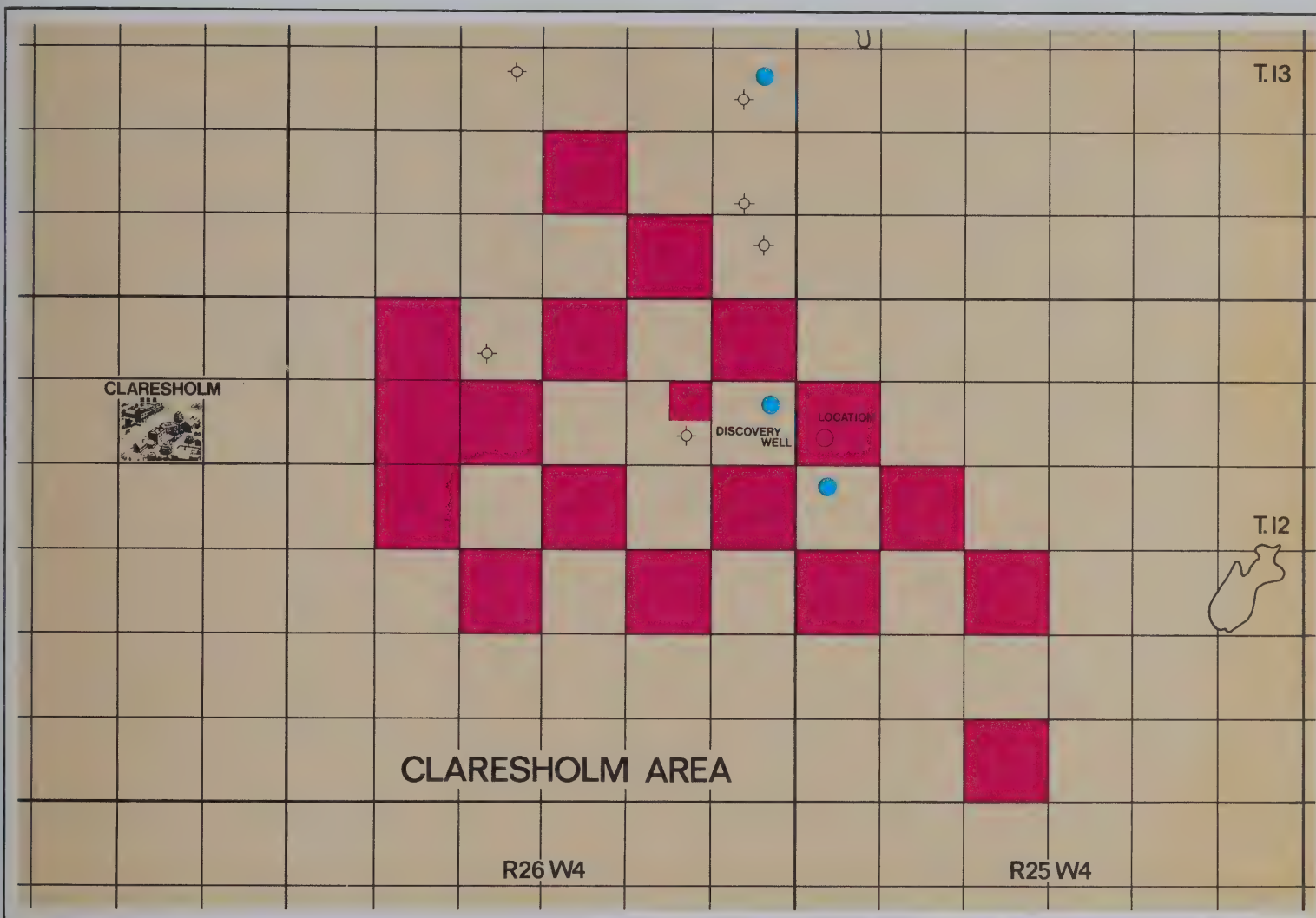
Numac participated to the extent of 20% in the acquisition of a Block "A" Permit (11,040 acres)

in the CLARESHOLM area of southwestern Alberta. This Permit surrounds two reported oil discoveries in the high reserve Turner Valley member of the Mississippian age. Seismic information is presently being accumulated to further delineate known structures. It is expected drilling will commence on this property in the near future and that the results could add appreciably to Numac's oil reserves and production.

As mentioned in previous reports, Numac's management is enthusiastic about the possibilities of gas-prone NORTHEASTERN BRITISH COLUMBIA. Continued emphasis was placed during 1971 on

the land acquisition program which commenced in 1970. The Company holds varied interests ranging from 33⅓% to 100% in 5,411 Crown lease acres located in the EAST CLARKE LAKE, GRASSY, GRAHAM and RED CREEK areas. A 7,035 acre Petroleum and Natural Gas Permit in the SILVER-BURY area and 7,781 acre Drilling Reservation in the MONTNEY area were acquired, Numac's interest being 25% and 50% respectively. Drilling is being considered for certain of the above parcels and farmin arrangements are being discussed on lands close to other British Columbia holdings.





FOREIGN EXPLORATION

A significant development for Numac during 1971 was the decision to extend its activities into geologically attractive and politically stable foreign areas. The Company believes that the potential for large scale oil and gas reserves in certain areas outside North America is attractive and such involvement would be in its best interests if the foreign properties are located in politically stable countries.

Numac is participating with other Canadian oil and gas companies and British financial interests in applying for Production Licences in offshore UNITED KINGDOM areas. Numac is the operator of an exploration group that has applied for selective Production Licences in the Northern NORTH SEA where several major oil and gas discoveries have been made. This group, after accumulating

considerable seismic and geological data, applied for certain licences which are considered to have the potential for large reserves. The group is optimistic that it will be awarded a Block containing between 50,000 to 55,000 acres.

Applications were also made for Production Licences in the CELTIC SEA where Numac is a participant in another Canadian oil and gas-British financial consortium. Again, the applications were made with the benefit of interpreted seismic and geological data. This group is confident it will be awarded a Production Licence.

Information currently available indicates the United Kingdom will announce the successful applicants by the middle of March, 1972.



MACKENZIE DELTA

HISTORY OF NUMAC'S POSITION IN THE MACKENZIE DELTA

In 1964, Numac acquired from the Government of Canada a 100% interest in 270,242 acres of exploratory permits covering lands in the Mackenzie Delta area of the Northwest Territories at a cost of \$27,024. Shortly after these permits were acquired several major oil companies acquired over 3,500,000 acres surrounding these permits.

In 1965, the Gulf-Shell-Imperial group drilled a deep test several miles south of Numac's permits. Though abandoned, the group confirmed the occurrence of several significant hydrocarbon shows and the existence of a deep sedimentary basin. Over the next couple of years additional wells were drilled verifying the results of the 1965 test.

In 1968, Numac farmed out its working interest to Bow Valley Industries Ltd. and associates for a cash consideration of \$270,242 plus retained a 20% *net carried* interest. Under the carried interest agreement, Bow Valley and associates assume the risk and responsibility for advancing 100% of all monies necessary to carry on all operations, including exploration, geophysical, drilling and completing the wells. They have the right to recover these costs, excluding any interest charges, from the proceeds from production, after which Numac would receive 20% of the net proceeds. Numac entered into this type of arrangement as it realized drilling costs in this area

were very expensive and the Company did not wish to dilute its outstanding shares or be saddled with a large debt structure in order to finance a major exploration program.

Subsequent to making this agreement, Imperial Oil Limited announced the Atkinson H-25 oil discovery, the Mayogiak P-17 dual zone oil discovery, the Taglu G-33 gas discovery, and more recently in 1972 the occurrences of hydrocarbons in the Mallik L-38 and West Taglu P-03 wells. Also in 1972, Imperial Oil announced their plans for the construction of two man-made islands in the shallow waters of the Mackenzie Delta. Both of these islands are in close proximity to Numac properties.

Bow Valley and associates have carried out a reconnaissance marine seismic program on several of the permits. In addition, a major seismic program is being carried out in 1972.

The information from seismic and drilling results to date indicates the Mackenzie Delta is proven to be an area with major crude oil, gas and condensate reserves. There are large hydrocarbon bearing structures with good porosity and exceptional permeability. As the demand for energy is increasing at an accelerated rate, there is an excellent possibility an oil and/or gas pipeline down the Mackenzie Valley will be commenced within thirty months.





MINING EXPLORATION

MINING EXPLORATION

The Company's 1971 mining exploration continued to be concentrated in specific areas of NORTHERN SASKATCHEWAN, BRITISH COLUMBIA and the NORTHWEST TERRITORIES. Considerable surface geology and ground geophysics were carried out and over 40,000 feet of diamond and percussion drilling tested numerous surface and geophysical anomalies. Continued exploratory programs are planned for each area in 1972.

Uranium exploration in NORTHERN SASKATCHEWAN has been primarily in the WOLLASTON LAKE and CARSWELL LAKE areas. A major program was carried out in the Wollaston Lake area on Mineral Permit No. 8 which is located immediately west of the Gulf Minerals Rabbit Lake uranium discovery. Although a commercial ore body has not been uncovered, significant information has been gained and follow-up exploration will continue in 1972. Further work programs are planned for the Carswell Lake area early in 1972 where certain claim blocks are located immediately west of the area in which Mokta (Canada) Ltd. is carrying out an extensive exploration program. Significant uranium deposits have been discovered in the immediate area in a structural setting which extends into our property.

In the NORTHWEST TERRITORIES, approximately seventy-five miles northeast of Yellowknife, the Company is participating in a drilling program which tested several conductors in a GREENSTONE BELT. Results have been encouraging, confirming massive sulfides with copper and zinc mineraliza-

tion, and further work is planned for the summer season of 1972 on similar prospects in this belt. Numac has a beneficial interest of approximately 30% in this program.

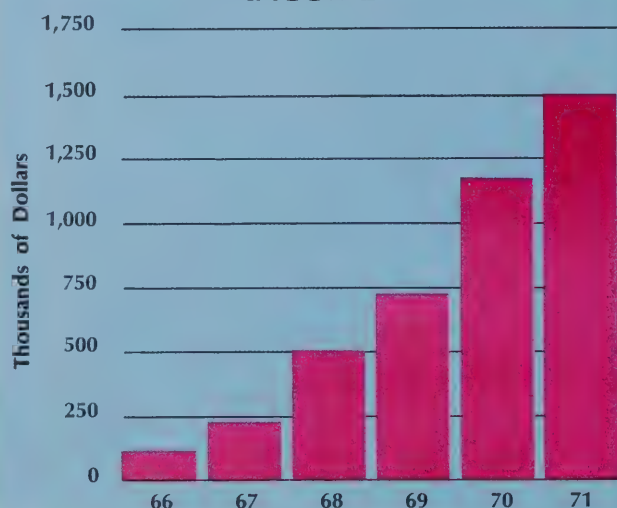
Also in the Northwest Territories, Numac holds a 20% interest in 42 mineral claims in the SIMPSON ISLANDS area of the east arm of Great Slave Lake. A diamond drill program was conducted in the summer of 1971 and this program will continue into the summer of 1972. Although uranium has been discovered, it has not been found in commercial quantities.

In BRITISH COLUMBIA, Numac is a 20% participant in programs directed by Bethlehem Copper Corporation Ltd. A continuing percussion drilling program is being carried out north of the Highland Valley. The main objective of this program is copper.

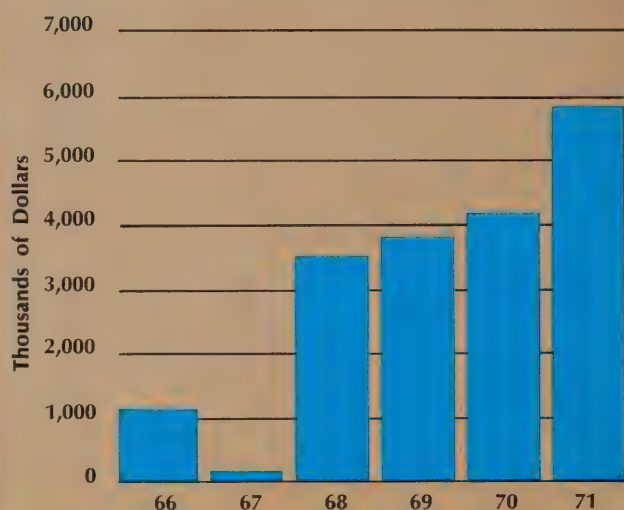
Also in British Columbia, the Company, in association with Bethlehem Copper, has taken out a 9,500 acre coal licence in the PRINCETON-MERRITT area. Following an extensive drilling program on the property a feasibility study has been conducted by outside consultants. The consultants' report is currently being analyzed to determine future programs. Numac has a 24.6% interest in this project.

The Company will also participate in a drilling program in the summer of 1972 on a copper prospect located about twenty-five miles north of Vancouver.

NET INCOME BEFORE EXTRAORDINARY INCOME



WORKING CAPITAL



FINANCIAL REVIEW

Earnings

Gross income for the year increased 17% to \$3,473,612 compared with \$2,980,420 for 1970. Net income, excluding extraordinary income, increased 27% to \$1,501,831 from \$1,184,311. Also in 1971 the Company earned extraordinary income in the amount of \$694,653 represented by a gain on sale of investment in a subsidiary of \$637,509 and a gain on sale of real estate property in the City of Edmonton of \$57,144. All costs pertaining to the listing of the Company's common shares on the American Stock Exchange have been included in general and administrative expenses in 1971.

Cash Flow

Net cash flow from operations was \$2,213,761 compared with \$1,869,333 in 1970. This amount, less \$60,000 which is required to service the long-term debt, is all available for reinvestment purposes.

Working Capital

The Company's working capital increased to \$5,899,236 at December 31, 1971 from the restated working capital as at December 31, 1970 of \$4,225,526. The opening working capital has been retroactively increased to give effect to the favourable settlement of a legal action relating to periods prior to 1970.

Capital Expenditures

Expenditures on lease acquisition, development and other capital assets totalled \$2,160,517 as compared to \$1,619,712 in 1970.

Income Taxes

The Company was not subject to income taxes in 1971 and has accumulated a tax credit as at December 31, 1971 of approximately \$3,130,000 to be applied against future taxable income.

Effective January 1, 1972 the Canadian Government enacted a new income tax act. The Company does not believe any additional taxes will be payable by it in the near future as a result of this new legislation.

Long-Term Debt

The long-term debt was reduced to \$60,000 as at December 31, 1971 and will be completely paid out in August, 1972.

Subsidiary and Affiliated Companies

Effective June 30, 1971, the Company sold its 53.333% interest in Pine Pass Oil & Gas Ltd. This sale had the effect of increasing consolidated working capital by \$1,233,097.

The oilfield construction operation continued to show increased earnings. This operation continued to expand its activities in Alberta and the Northwest Territories.

During 1971, Numac incorporated a United Kingdom subsidiary for the purpose of acquiring and exploring oil and/or gas properties in the North Sea and Celtic Sea.

The Company maintained its interest in two mining exploration companies active in the Northwest Territories. The Company has approximately a 22% interest in Shield Resources Limited (N.P.L.) and 9% in Vestor Explorations Ltd.

Numac also effectively controls 60% of the outstanding shares of a real estate development company and accounts for this investment on the equity basis. This method of accounting for the investment is considered to be appropriate because of the relatively minor investment in that company in relation to its total assets, the lack of relationship of the business of that company to the oil business and the fact that the only activity of that company during the year was the commencement of construction of an office building in the City of Edmonton.

CORPORATE INFORMATION

On January 6, 1972 the Company's common shares commenced trading on the American Stock Exchange. Listing the shares outside of Canada is a step complementary to the Company's growth and recent involvement in international oil and gas exploration.

CONSOLIDATED STATEMENT OF INCOME

Years ended December 31, 1971 and 1970

INCOME

Gross operating income
Investment income
Supervision and sundry

1971	1970
\$ 2,982,219	\$ 2,568,811
438,716	350,681
52,677	60,928
<u>3,473,612</u>	<u>2,980,420</u>

EXPENSES

Operating expense
General and administrative expense
Interest expense
Minority interest

963,957	827,147
240,602	184,333
34,111	45,680
21,181	53,927
<u>1,259,851</u>	<u>1,111,087</u>

NET FUNDS FROM OPERATIONS
Provision for depletion and depreciation

2,213,761	1,869,333
711,930	685,022

NET INCOME BEFORE EXTRAORDINARY INCOME
Extraordinary income (Note 7)

1,501,831	1,184,311
694,653	—

NET INCOME (Note 3)

<u>\$ 2,196,484</u>	<u>\$ 1,184,311</u>
---------------------	---------------------

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Years ended December 31, 1971 and 1970

RETAINED EARNINGS, beginning of year

As previously reported
Adjustment with respect to legal action (Note 8)

1971	1970
\$ 2,969,905	\$ 1,785,594
110,621	110,621

As restated
Add: Net income

3,080,526	1,896,215
2,196,484	1,184,311

RETAINED EARNINGS, end of year (Note 8)

<u>\$ 5,277,010</u>	<u>\$ 3,080,526</u>
---------------------	---------------------

EARNINGS PER SHARE

(Based on weighted average of outstanding shares)

NET INCOME BEFORE EXTRAORDINARY INCOME
Extraordinary income

1971	1970
36c	28c
17	—
<u>53c</u>	<u>28c</u>

The accompanying notes are an integral part of the financial statements.

NUMAC OIL & GAS LTD. NINTH ANNUAL REPORT, 1971

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

Years ended December 31, 1971 and 1970

	1971	1970
SOURCE OF FUNDS		
Income	\$ 3,473,612	\$ 2,980,420
Less: Operating, general and administrative and interest expenses and minority interest	1,259,851	1,111,087
Net funds from operations	2,213,761	1,869,333
Funds provided by sale of investment in subsidiary	1,233,097	—
Issuance of capital stock	—	9,180
Proceeds from legal action (Note 8)	—	207,413
Sale of interest in rights and leases	208,491	102,860
Sale of investments	218,871	—
Sale of equipment	37,546	33,067
Minority interest	21,181	(9,073)
	<u>3,932,947</u>	<u>2,212,780</u>
APPLICATION OF FUNDS		
Exploration, development and equipment	2,160,517	1,619,712
Repayment of long-term debt	60,000	60,000
Purchase of investments	38,720	124,272
	<u>2,259,237</u>	<u>1,803,984</u>
INCREASE IN WORKING CAPITAL (Note 8)	<u>1,673,710</u>	<u>408,796</u>
Working capital, beginning of year	4,225,526	3,816,730
WORKING CAPITAL, end of year	<u>\$ 5,899,236</u>	<u>\$ 4,225,526</u>

The accompanying notes are an integral part of the financial statements.

AUDITORS' REPORT

To the Shareholders of
Numac Oil & Gas Ltd.

We have examined the consolidated balance sheet of Numac Oil & Gas Ltd. and subsidiary companies as at December 31, 1971 and the consolidated statements of income and retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1971 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

EDMONTON, Alberta
February 23, 1972.

WINSPEAR HIGGINS STEVENSON & DOANE
Chartered Accountants.

NUMAC OIL & GAS LTD. AND SUBSIDIARY COMPANIES
CONSOLIDATED BALANCE SHEET DECEMBER 31, 1971 AND 1970

ASSETS

	1971	1970
CURRENT ASSETS		
Cash	\$ 259,851	\$ 26,078
Marketable securities, at cost (market value \$3,467,175; 1970, \$2,186,075)	3,292,943	2,093,625
Short term notes, at cost	2,038,005	2,051,625
Accounts receivable	674,688	663,566
Receivable on legal action (Note 8)	—	207,413
Prepays and deposits	42,251	35,985
	6,307,738	5,078,292
INVESTMENTS (Note 2)	535,827	274,183
FIXED ASSETS, at cost		
Lands, leases and well costs	7,592,540	7,702,646
Production and other equipment	3,146,590	2,375,568
	10,739,130	10,078,214
Less: Accumulated depletion and depreciation	2,539,286	2,117,334
	8,199,844	7,960,880
UNALLOCATED COSTS ON CONSOLIDATION (Note 1)	—	148,400
	<u>\$15,043,409</u>	<u>\$13,461,755</u>

The accompanying notes are an integral part of the financial statements.

LIABILITIES

CURRENT LIABILITIES

Bank loan, demand
Accounts payable and accruals
Long term debt due within one year

LONG TERM DEBT

MINORITY INTEREST IN SUBSIDIARY COMPANY

CONTINGENT (Note 5)

SHAREHOLDERS' EQUITY

SHARE CAPITAL (Note 4)

Authorized—
5,000,000 shares without nominal or par value
Issued—
4,181,066 shares

RETAINED EARNINGS (Note 8)

1971	1970
\$ —	\$ 500,000
348,502	292,766
60,000	60,000
408,502	852,766
60,000	120,000
—	110,566
468,502	1,083,332

ON BEHALF OF THE BOARD

W. S. McGregor Director
A. H. MacLean Director

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 — ACCOUNTING PRINCIPLES

The consolidated financial statements include the accounts of the Company and all subsidiaries except those of a real estate development company accounted for on the equity basis with respect to the Company's effective ownership of 60% of its outstanding shares. This method of accounting is considered to be appropriate for this subsidiary because of the relatively minor investment in that company in relation to its total assets, the lack of relationship of the business of that company to the principal business of the Company and the fact that the only activity of that company during the year was the commencement of construction of an office building which produced no income or expense.

Effective June 30, 1971 the Company sold its 53.333% interest in a subsidiary company. The operating results of that company to the date of sale have been included in the consolidated statement of income and the gain on sale has been shown in that statement as extraordinary income.

The Companies follow the full-cost method of accounting whereby all costs relative to the exploration for and development of oil and gas reserves are capitalized. Such costs include lease acquisition costs, geological and geophysical costs, carrying charges of non-producing properties, costs of drilling both productive and non-productive wells and overhead directly associated with exploration and development. These costs are depleted on the composite unit-of-production method based on estimated proven developed reserves of oil and gas.

Depreciation of production and other equipment is provided for on the basis of amortizing the cost of assets over their estimated useful lives. The excess of the cost of acquiring shares of subsidiaries over their net book value has been allocated to the appropriate assets and amortized on the straight-line basis over five years.

All acquisition and exploration costs of mining properties are treated on a project basis wherein costs are not charged to expense unless the whole project is abandoned.

NOTE 2 — INVESTMENTS (no quoted market value)

Real estate development company	
equity basis (Note 1)	\$ 229,774
Other — at cost less amounts written off	306,053
	<u>\$ 535,827</u>

NOTE 3 — INCOME TAXES

For income tax purposes, the Companies are entitled to claim drilling, exploration and lease acquisition costs and capital cost allowance (depreciation) in amounts which may exceed the related depletion and depreciation provisions reflected in their accounts. As a result of claiming excess drilling, exploration and lease acquisition costs, no income taxes are payable for the year. Expenditures remain to be carried forward and applied against future taxable income in the amount of \$3,130,000 (drilling, exploration and lease acquisition costs \$1,650,000; undepreciated capital cost \$1,480,000).

The Companies do not believe that it is appropriate to provide for income taxes deferred as a result of claims for drilling, exploration and lease acquisition costs. While this view conforms with general practice in the oil and gas industry, and is accepted by accounting authorities outside of Canada, it differs from the tax allocation basis of accounting recommended by the Accounting and Auditing Research Committee of the Canadian Institute of Chartered Accountants under which the income tax provision is based on the income reported in the accounts.

If the tax allocation basis had been followed for all timing differences between taxable income and reported income, deferred income taxes of \$490,000 (\$530,000 in 1970) would have been provided and net income would have been reduced accordingly. The accumulated income tax reductions relating to all timing differences in the current and prior years amount to approximately \$1,460,000 at December 31, 1971.

NOTE 4 — SHARE CAPITAL

As at December 31, 1971, 66,000 shares of capital stock of the Company were reserved for option to senior officers and key employees at prices ranging from \$5.00 to \$6.48 per share. These options are exercisable cumulatively as to 20% per year of the total number granted commencing one year after date of option, and all expire on or before November 10, 1974.

NOTE 5 — CONTINGENT

The Company has guaranteed a portion of a bank loan to the real estate development company, referred to in Note 1, for an amount not to exceed \$2,400,000.

NOTE 6 — REMUNERATION OF SENIOR OFFICERS AND DIRECTORS

In accordance with the provisions of the Companies Act (Alberta), it is reported that the remuneration paid to the senior officers of the Companies amounted to \$172,520 (1970 — \$134,480) and Directors' fees amounted to \$1,508 (1970 — \$1,522).

NOTE 7 — EXTRAORDINARY INCOME

Effective June 30, 1971, the Company sold its 53.333% interest in a subsidiary company resulting in a gain of \$637,509 which is included in the consolidated statement of income as extraordinary income.

During the year the Company sold real estate property to the real estate development company referred to in Note 1. In accordance with the equity basis of accounting, 40% of the gain from this transaction, amounting to \$57,144, has been included in the consolidated statement of income as extraordinary income.

NOTE 8 — RESTATEMENT OF COMPARATIVE FIGURES

Effective January 1, 1970 the Company increased consolidated retained earnings by \$110,621, minority interest by \$96,792 and working capital by \$207,413 resulting from the favourable settlement by a subsidiary company of a legal action relating to periods prior to 1970.



BOARD OF DIRECTORS

Ralph A. Bard Jr.	Executive	Chicago, Illinois
Lawrence L. Bell	Executive	Toronto, Ontario
Hadley Case	President Felmont Oil Corporation	New York, N.Y.
Alexander N. MacIver	Barrister & Solicitor	Edmonton, Alberta
William S. McGregor	President Numac Oil & Gas Ltd.	Edmonton, Alberta
Jack W. Robbins	Sr. Vice-President and General Counsel Pitcairn Incorporated	Jenkintown, Penn.
Marshal Stearns	President T. A. Richardson & Co. Limited	Toronto, Ontario
Lloyd F. Stevens	Executive Vice-President	London, Ontario
	Allpak Products Limited	

OFFICERS

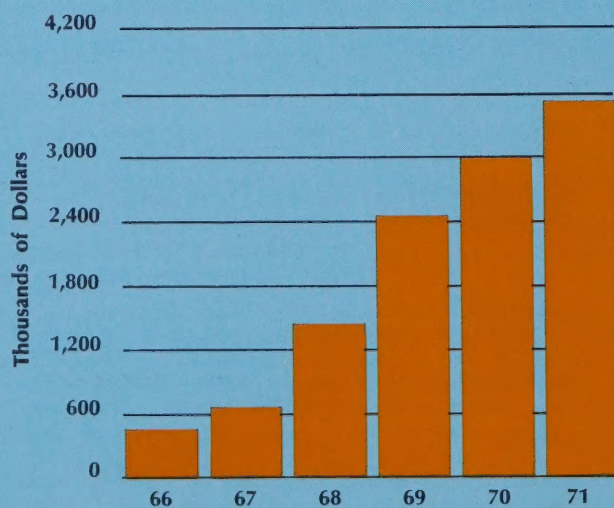
President and Managing Director	William S. McGregor
Vice-President, Engineering	Donald F. Baker
Vice-President, Exploration	Gunnar Haugrud
Secretary and Vice-President, Lands and Contracts	C. R. S. Montgomery
Treasurer	John T. Ferguson
Assistant Secretary	Alexander N. MacIver

HEAD OFFICE	11055 - 107th Street, Edmonton, Alberta
REGISTRARS AND TRANSFER AGENTS	The Royal Trust Company Edmonton, Montreal, Toronto The Canadian Bank of Commerce Trust Company, New York
AUDITORS	Winspear Higgins Stevenson & Doane Edmonton, Alberta
SOLICITORS	Jackson, Arlette and MacIver Edmonton, Alberta
LISTING	Toronto Stock Exchange American Stock Exchange
ANNUAL MEETING	9:00 a.m., June 22, 1972 Hotel Macdonald, Edmonton

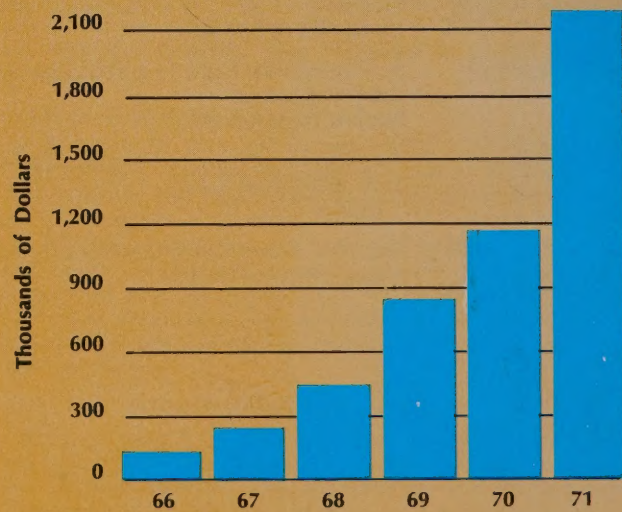
NINE YEAR STATISTICAL SUMMARY

	1971	1970
Gross Income, net after royalties	\$ 3,473,612	2,980,420
Operating Expense	\$ 963,957	827,147
General and Administrative	\$ 240,602	184,333
Net Cash Flow from Operations	\$ 2,213,761	1,869,333
— per share	\$.53	.45
Long-term debt	\$ 60,000	120,000
Cash Flow available for re-investment (after deducting requirements for reduction of long-term debt)	\$ 2,153,761	1,809,333
Depletion and depreciation	\$ 711,930	685,022
Net Income, before extraordinary items	\$ 1,501,831	1,184,311
— per share	\$.36	.28
Net Income	\$ 2,196,484	1,184,311
— per share	\$.53	.28
Fixed Assets, net	\$ 8,199,844	7,960,880
Capital Expenditures	\$ 2,160,517	1,619,712
Shareholders' Equity	\$14,574,907	12,378,423
Working Capital	\$ 5,899,236	4,225,526
Common Shares Outstanding	4,181,066	4,181,066
Land Holdings		
Gross Acres	1,187,768	1,172,877
Net Acres	281,161	354,876

GROSS INCOME



NET INCOME

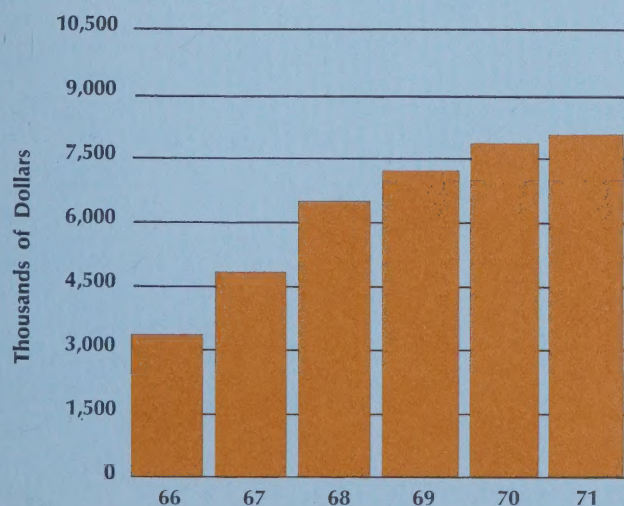


1969	1968	1967	1966	1965	1964	1963
2,421,679	1,386,325	653,135	485,741	353,488	281,352	104,154
932,427	385,789	93,146	57,254	34,611	38,221	6,908
158,404	112,670	82,876	60,946	46,928	49,837	31,143
1,220,286	805,510	432,954	340,074	288,200	190,476	66,103
.29	.23	.14	.11	.09	.06	.02
180,000	240,000	—	—	—	—	—
1,160,286	745,510	432,954	340,074	288,200	190,476	66,103
495,246	301,213	192,744	196,462	131,068	90,794	70,504
725,040	504,297	240,210	143,612	157,132	99,682	(4,401)
.17	.14	.07	.05	.05	.03	—
803,800	474,781	240,210	143,612	157,132	99,682	(4,401)
.19	.13	.07	.05	.05	.03	—
7,163,968	6,403,755	4,767,132	3,388,668	2,764,274	2,276,558	1,357,473
1,367,452	2,315,234	1,622,144	715,995	651,100	972,072	1,536,114
11,074,311	10,275,499	5,217,706	4,945,225	4,801,613	4,644,481	4,544,799
3,816,730	3,640,098	147,996	1,241,553	1,778,017	2,133,439	2,977,393
4,179,566	4,177,566	3,209,925	3,200,000	3,200,000	3,200,000	3,200,000
1,427,533	2,514,639	1,597,111	1,365,155	921,100	490,944	397,431
422,655	1,160,115	1,121,752	1,052,521	735,470	327,125	151,900

NOTE: The above Statistical Summary includes the operations of Numac Oil & Gas Ltd. from date of incorporation, March 13th, 1963, and its subsidiary companies from date of acquisition.

It also reflects retroactive adjustments due to the adoption of the full-cost method of accounting effective January 1st, 1968.

FIXED ASSETS, NET



LONG TERM DEBT

